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**Statement by Mr. Nakunyada, Mr. Sitima-wina, and Ms. Basutli on Colombia  
(Preliminary)  
Executive Board Meeting  
March 19, 2021**

We thank staff for the comprehensive set of reports and Mr. Tarazona for his insightful Buff statement. We broadly share the staff's appraisal and provide the following remarks for emphasis.

Colombia established a remarkable track record of sound macroeconomic management that delivered strong growth performance prior to the outbreak of the COVID-19 pandemic. The pandemic has, however, exacted a heavy social and economic toll characterized by high unemployment and marked contraction in growth. Nevertheless, we commend the authorities for leveraging on the flexible policy frameworks to promptly implement coordinated response measures that mitigated the economic fallout from the pandemic. The gradual recovery expected in 2021, however, remains subject to downside risks from pockets of financial vulnerabilities, commodity price volatility, difficult external financing conditions, and resurgence of the COVID-19 infections. Against this background, we urge the authorities to sustain accommodative macroeconomic policies to preserve lives and livelihoods, foster accelerated recovery, and limit scarring.

**We view the temporary suspension of the fiscal rule as warranted but stress the need to carefully weigh its timely reinstatement against existing needs in the economy.** In this vein, we positively note that available space under the fiscal rule has been deployed towards elevated health expenditures and discretionary countercyclical spending to support economic activity. Looking ahead, we stress the need to utilize the undisbursed resources from the national emergency mitigation fund (FOME) to acquire vaccines, finance healthcare, and well targeted transfer programs. Against this background, we caution against premature withdrawal of support to ensure adequate cushioning of vulnerable households and firms. Once the recovery is firmly entrenched, growth-friendly fiscal consolidation should be pursued to facilitate the return to the enhanced fiscal rule in the medium term. Further, the pace of adjustment should be carefully calibrated in line with improvements in tax revenues and spending efficiency.

**Sustained monetary policy accommodation remains essential to support recovery and boost private domestic demand.** In this regard, the central bank should stand ready to further ease monetary policy in the context of low inflation and well-anchored expectations. Moreover, we are encouraged by the central bank's commitment to data-dependent monetary policy decisions to achieve a smooth adjustment to exogenous shocks. Concurrently, we urge the authorities to maintain exchange rate flexibility, while accumulating reserve buffers, considering attendant external risks.

**The remaining pockets of vulnerabilities should be vigilantly monitored to safeguard financial stability.** To this end, increased attention should be paid to the adverse effects of the pandemic on the profitability of financial institutions, the rise in NPLs, and the need for adequate provisioning. In addition, we view the sustained implementation of recovery and resolution planning for systemically important financial institutions as critical, should the adverse scenario materialize. That said, we support the financial supervisor's (SFC) decision to release countercyclical bank buffers and permit modifications of loan terms without changes to the credit rating or loan reclassification. Furthermore, we view the guidance for banks to minimize all capital distributions, as warranted to preserve buffers in the context of a highly uncertain environment. We also urge the authorities to persevere with financial sector policy reforms to further strengthen the regulatory and supervisory framework.

**Finally, steadfast implementation of structural reforms would be critical to enhance productivity, reduce unemployment, and promote durable growth.** We, therefore, commend the authorities for progress made in simplifying firm formalization, measures to integrate immigrants into the formal labor market as well as bold strides taken to strengthen governance and transparency. That said, we underscore the importance of pressing ahead with the implementation of the national and regional infrastructure agenda to enhance external competitiveness. Concurrently, an effective and inclusive vaccination program would be important to pave the way for the implementation of the NDP and Peace Accords to support regional, social, and economic inclusion.